

REPORT OF THE COMMITTEE ON BUDGET

Ann H. Kobayashi, Chair; Todd K. Apo, Vice-Chair
Romy M. Cachola, Barbara Marshall, Rod Tam, Members

Committee Meeting Held
February 16, 2006

Honorable Donovan M. Dela Cruz
Chair, City Council
City and County of Honolulu

Mr. Chair:

Your Committee on Budget, which considered Bill 12 (2006), FD1 entitled:

"A BILL FOR AN ORDINANCE RELATING TO LIMITS ON REAL PROPERTY
TAXATION,"

which passed Second Reading at the February 15, 2006 Council meeting, reports as follows:

The purpose of the Bill is to establish a new way of setting real property tax rates so that initially, the average real property tax bill for each property, as well as the revenues derived from each class of property, is unchanged from year to year, adjusting for fixed costs. The Bill provides greater stability in real property taxes for both property owners and the City, helping to insulate both from wide swings in property valuations due to market forces. In the event assessed valuation for a particular class increases, the initial rate for that class would likely decrease. Likewise, in the event assessed valuation for a particular class decreases, initial rates would likely increase. The Bill still allows for the mayor or the council to propose different tax rates.

At the February 15, 2006 Council meeting, the Bill was amended by (1) setting the initial rate to match any projected increase in the City's fixed costs (i.e. payroll, debt service, retirement system contribution, and health fund contribution) instead of adjusting for inflation; and (2) the initial rate will be presented to the Council at the time the Mayor submits the budget.

CITY COUNCIL

CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

ADOPTED ON _____

COMMITTEE REPORT NO. 93

REPORT OF THE COMMITTEE ON BUDGET

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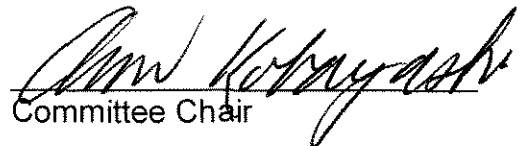
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Your Committee further amended the Bill, based on testimony by the administration, to:

- Amend the "Estimated fixed cost adjustment" to "Estimated uncontrollable cost adjustment," and change definition to mean "a factor representing costs that the city is mandated or obligated to pay."
- Amend Section 2 paragraph F to allow the administration to set the initial tax rate accompanied by a report by the Director of Budget and Fiscal Services detailing the computation of the uncontrollable cost adjustment to the Mayor and the Council at the time the annual budgets are transmitted to the Council.
- Removes the requirement for the Mayor to advertise the initial rate.

Your Committee on Budget is in accord with the intent and purpose of Bill 12 (2006), FD1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as Bill 12 (2006), FD1, CD1. (Ayes: Kobayashi, Cachola, Tam - 3; Noes: None; Excused: Apo, Marshall - 2.)

Respectfully submitted,


Committee Chair

2/23/06 Council Meeting: Bill 12, FD1, CD1 was amended to FD2 and subsequently passed Third Reading as amended (Bill 12, CD1, FD2).

CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

ADOPTED ON FEB 23 2006

COMMITTEE REPORT NO. 93



A BILL FOR AN ORDINANCE

RELATING TO LIMITS ON REAL PROPERTY TAXATION.

BE IT ORDAINED by the People of the City and County of Honolulu:

SECTION 1. The purpose of this ordinance is to establish a new way of setting real property tax rates so that initially, the average real property tax bill for each property, as well as the revenues derived from each class of property, is unchanged from year to year, adjusting for the city's uncontrollable costs. This is to provide greater stability in real property taxes for both property owners and the city, helping to insulate both from wide swings in property valuations due to market forces. The mayor or the council may still propose different tax rates.

SECTION 2. Section 8-11.1, Revised Ordinances of Honolulu 1990, is amended to read as follows:

"Sec. 8-11.1 Real property tax—Determination of rates.

- (a) Unless a different meaning is clearly indicated by the context, as used in this section[,]:

"Base tax year" means the tax year immediately prior to the budgeted tax year.

"Budgeted tax year" means the tax year beginning July 1 from which real property tax revenues are to help finance the proposed legislative and executive budgets.

"Class of property" means a class of real property established in accordance with section 8-7.1(c).

"Estimated uncontrollable cost adjustment" means a factor representing costs that the city is mandated or obligated to pay.

"Initial tax rate" means the preliminary tax rate for a class of property as determined in section 8-11.1(b).

"[net] Net taxable real property" means the fair market value of property determined pursuant to this chapter which the director of budget and fiscal services certifies as the tax base as provided by ordinance less exemptions as provided by ordinance and, in all cases where appeals from the director's assessment are then unsettled, less 50 percent of the value in dispute.



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"Tax rate" means the dollar amount of tax levied under this chapter per \$1,000.00 of net taxable real property, computed to the nearest cent.

(b) The council shall annually set the tax rate or rates in accordance with this subsection for the classes of real property established in accordance with subsection 8-7.1(c). A resolution setting the tax rate or rates shall be adopted by the council during the same meeting at which the applicable legislative and executive budget bills are passed on third reading. The tax rate or rates shall be set according to the following procedures[:]. The procedures provide for initial tax rates for the net taxable real property within each class of property to be established by the director. The initial tax rates are established in a way that the average real property tax liability within each class of property does not change in the budgeted tax year compared to the base tax except for the estimated uncontrollable cost adjustment only.

(1) Tax rates for all taxable classes of property shall be initially established by the director using the following method:

(A) The director shall establish the estimated change in the operating uncontrollable costs of the city and county of Honolulu, expressed as a percentage increase from the base tax year to the budgeted tax year.

(B) The director shall determine the average tax liability for each class of property for the base tax year as follows: sum the net tax liability for the base tax year of all parcels within the class, then divide the result by the total number of tax parcels in the class;

(C) The director shall then determine the average tax liability for each class of property for the budgeted tax year as follows: adjust the figure determined under paragraph (B) by the estimated uncontrollable cost adjustment;

(D) The director shall then determine the amount to be raised by the initial tax rate for each class of property for the budgeted tax year as follows: multiply the figure determined under paragraph (C) for each class of property by the total number of tax parcels in the class for the budgeted tax year; and

(E) The director shall then determine the initial tax rate per \$1,000.00 of net taxable real property in each class of property for the budgeted tax year as follows: divide the figure determined under



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paragraph (D) for each class of property by the assessed valuation of net taxable real property within each class of property for the budgeted tax year, then multiply the result by 1,000, then round the result to the nearest cent.

(F) The initial tax rates set by the director, accompanied by a report by the director detailing the computation of the estimated uncontrollable cost adjustment, shall be transmitted to the mayor and the council at the time that the annual executive budgets are transmitted to the council.

(2) The mayor may propose to the council that the initial tax rates be adopted or be increased or decreased for any class of property. The tax rates proposed by the mayor shall be set forth in the form of a resolution transmitted to the council at the same time that other revenue measures for the budgeted tax year are transmitted.

(3) Upon receipt of the mayor's proposed tax rate resolution, the council may adopt the initial tax rates, the mayor's proposed tax rates, or propose new rates.

(c) (1) The council shall advertise its intention to set the tax rate or rates and the date, time and place of a public hearing in accordance with law. The date of the public hearing shall be not less than 10 days after the advertisement is first published and shall set forth the proposed tax rate or rates to be considered by the council.

(2) After the public hearing provided for in subdivision (1) of this subsection, the council shall readvertise and reconvene to adopt a resolution setting the tax rate or rates for the tax year for which property tax revenues are to be raised. The advertisement shall state the rate or rates proposed to be set and the date, time and place of the meeting scheduled for setting the rate or rates. The date, time and place of the meeting shall also be announced at the public hearing required by subdivision (1) of this subsection.

(3) If, after adopting an increase or decrease in the tax rates as provided by subdivisions (1) and (2) of this subsection, the council determines that it requires a further increase or decrease in tax rates, the council shall readvertise and follow the requirements of subdivisions (1) and (2) of this subsection.



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- [(c) The council shall set the tax rate for each class of real property for a tax year by using the following method:
- (1) Net taxable real property within each class shall be assigned a percentage of the total revenue to be derived from all real property.
 - (2) The percentage of revenue to be raised from net taxable real property within each class shall be multiplied by the total revenue to be raised from all real property in order to determine the amount of revenue to be derived from that class.
 - (3) The amount of revenue to be raised from each class shall be divided by the net taxable real property of that class to determine the applicable tax rate. The tax rate shall be expressed as a dollar amount per \$1,000.00 of net taxable real property.]
- (d) The council shall notify the director of budget and fiscal services of the tax rate or rates set for a tax year before the commencement of that tax year. Upon receipt of the notification, the director shall use the rate or rates in the levying of property taxes as provided by this chapter.
- (e) The director of budget and fiscal services shall, on or before February 1st preceding the tax year, furnish the council with a calculation certified by the director as being as nearly accurate as [may be,] possible of the net taxable real property within the [county] city, separately stated for each class established in accordance with [Section] subsection 8-7.1(c) plus such additional data relating to the property tax base as may be necessary. The director shall include the [sum of the value] amount of all tax credits granted under Article 13 for the current tax year and the amount of all tax credit denials appealed during the current tax year as part of the information required by this subsection.
- (f) Insofar as the validity of any tax rate is concerned, the provisions of subsection (e) of this section as to dates shall be deemed directory; provided, that all other provisions of this section shall be deemed mandatory.
- (g) Notwithstanding any provision to the contrary, there shall be levied upon each individual parcel of real property taxable under this chapter a minimum real property tax of \$100.00 a year, except for properties exempt under Section 8-10.27 and except as provided in Section 8-10.28(b)(2)."

